

The City Authority of the 15 May City (جهاز مدينة 15 مايو) contracted Mansour Designs and Constructions Co. to construct a housing compound of 150 apartments for middle-income families in the city.

According to the contract, the City Authority of 15 May will compensate Mansour for actual allowable construction-related costs incurred in the project, plus a 3 percent margin to cover the company's overhead costs, in addition to a 4 percent profit margin.

1. In terms of pricing variation, what type of contract is this?

- cost plus percentage of costs

2. From the perspective of Mansour Designs and Constructions Co., what are the advantages and disadvantages of this contract type?

Advantages:

- minimizes risk by sharing risk allocation with the client;
- allows Mansour Designs to spend more on better staffing, higher quality and more attention to detail.

Disadvantages:

- requires documentation and disclosure of all costs related to construction.

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2. From the perspective of the City Authority of the 15 May City, what are the advantages and disadvantages of this contract type?

Advantages:

- encourages contractors to operate in volatile market and/or apply high quality and experimental designs and technologies;
- client is likely to receive best quality product.

Disadvantages:

- no price ceiling --> City Authority of 15 Mayo cannot determine in advance at what cost the project will be realized --> harder to budget and raise funds with certainty;
- incentive for contractor to spend excessively, rewarding expenditure with percentile profit margins;
- client will have to be closely and regularly concerned with contractors' bookkeeping.

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According to the contract, the City Authority of 15 May will compensate Mansour for actual allowable construction-related costs incurred in the project, plus a fee of 425,000 EGP to cover the company's overhead costs and profit margin.

1. In terms of pricing variation, what type of contract is this?

- cost plus fixed fee

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- if actual allowable costs are at least 9% lower than the initial estimate total cost of 4,505,000 EGP.

1. In terms of pricing variation, what type of contract is this?

- cost plus incentive fee

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- allows Mansour Designs to spend more on better staffing, higher quality and more attention to detail.

Disadvantages:

- requires documentation and disclosure of all costs related to construction;
- the contractor's final payment cannot be determined in advance as it is contingent on performance --> harder to budget.

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- if the contractor delivers the contracted building before the agreed-upon delivery date / period of 18 months;
- if actual allowable costs are at least 9% lower than the initial estimate total cost of 4,505,000 EGP;
- if the contractor can enhance the building's energy efficiency and environmental friendliness without incurring an increase of more than 3% in actual allowable costs of construction.

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- incentivizes contractor to spend efficiently and operate economically;
- incentivizes contractor to enhance performance and achieve client needs

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